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FM AMEMBASSY HARARE
TO SECSTATE WASHDC 2971
INFO SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
AMEMBASSY ABUJA
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AMEMBASSY ADDIS ABABA
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AMEMBASSY KAMPALA
AMEMBASSY NAIROBI
NSC WASHDC
EUCOM POLAD VAIHINGEN GE
USMISSION GENEVA
JAC MOLESWORTH RAF MOLESWORTH UK
DIA WASHDC
CIA WASHDC

UNCLAS HARARE 000477

ADDIS ABABA FOR USAU, ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL, AF/S FOR S.HILL

E.O. 12958: N/A
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Price Movements-Exchange Rate
and Selected Products

12. Parallel rate for cash diverged further, at ZW\$650 million:
US\$1, from inter-bank average of Z\$529 million: US\$1
Bank transfer rate jumped to: Z\$800 million; official rate:
ZW\$30,000: US\$1

Sugar rose to Z\$800 million/2kg vs. controlled price of Z\$8
million/2kg

Cooking oil increased to Z\$1.3 million/750ml vs. controlled price of
Z\$9.3 million/750ml

Petrol and diesel rose to Z\$920million/liter vs. controlled price of
Z\$60,000/liter

On the Political/Social Front

13. Opposition Returns To Campaign Mode... On May 27, MDCyH!Q%-situation

in Zimbabwe and outline his party's response. Tsvangirai stated
that over 50 people have been killed and at least 25,000 displaced
since the March 29 elections. In response, Tsvangirai announced the
launch of the President's Fund for Victims of Violence, intended to
assist Zimbabweans impacted by the recent surge in
government-sponsored attacks. Tsvangirai repeatedly drove home what
appears to be the MDC's mantra for the campaigning days ahead: "The
rebuilding of Zimbabwe begins now." See Harare 470.

¶4. ...But Remains Divided... On May 29, Morgan Tsvangirai and former independent candidate Simba Makoni held separate briefings in which they discussed violence, the June 27 run-off election, and their perspectives on a government of national unity (GNU). Significant differences in their respective positions indicate that a united opposition will not be immediately achieved. Both deplored ongoing violence, but Tsvangirai laid the blame at the feet of ZANU-PF, while Makoni stated that both ZANU-PF and the MDC were responsible. Both men called for a GNU to be convened as soon as possible, but Tsvangirai proposed a broad GNU under an MDC mandate, while Makoni suggested it be formed from all "key constituencies." While Tsvangirai focused on creating a benign electoral environment, Makoni stated that holding the contest would be disastrous for the Zimbabwe; he advocated a two to five year transitional government with elections to follow. See Harare 473.

¶5. Visit to Mashonaland East Reveals Fearful Populace... Mission staff visited the town of Murewa, scene of significant ZANU-PF directed violence, the day after Morgan Tsvangirai presided over a funeral there for MDC provincial secretary Shepherd Jani, who was brutally murdered last week. Residents were visibly on edge and reluctant to talk. At a nearby rural Catholic mission, medical staff and clergy related that the local ZANU-PF chairman, who lost his seat as counselor in the March 29 election, had been holding political meetings and threatening those who did not attend. One meeting was held on the grounds of the mission over objections of the church and the local governor. Mission staff also met with one victim of the violence - a 37-year-old woman - who had been beaten with sticks by a group of about 20 people, including some women. She and her husband were both known MDC supporters. While doctors feared her husband's leg was broken, their x-ray machine had been broken for a month and they could not afford the imported parts to fix it. Local NGOs were working to bring the couple to Harare for additional treatment.

¶6. Government Propaganda Aimed At U.S. Ambassador... In a front page story on May 28, the government mouthpiece The Herald reported that "United States Ambassador to South Africa Patrick Kelly Diskin sneaked into Zimbabwe" from Botswana for 14 days of secret consultations with Ambassador McGee. The newspaper published U.S. diplomatic passport and license plate numbers, which they claimed belonged to the Ambassador. In reality, Patrick Diskin is USAID's Regional Food for Peace Program Coordinator based in Pretoria. Diskin was on a routine visit to assist USAID/Zimbabwe in monitoring the implementation humanitarian food assistance programs, which provided US\$171 million worth of food to Zimbabwe's most vulnerable individuals in the last year. The U.S. Ambassador to South Africa is, of course, Eric M. Bost. The report came on the heels of May 25 threats by Mugabe to expel Ambassador McGee if he continued to "meddle in Zimbabwe's internal affairs."

¶7. Zim First Lady Slams Opposition... First Lady of Zimbabwe Grace Mugabe took a shot at Morgan Tsvangirai during a May 28 trip to Mashonaland Central with her husband to meet with victims of political violence mostly perpetrated by, according to ZANU-PF propaganda, the MDC. "Even if people vote for the MDC, Morgan Tsvangirai will never step foot inside the State House," she stated. "He will only get to hear about what it looks like inside State House from people who have been there. Even if [Mugabe] loses, he will only leave State House to make way for someone from Zanu-PF." The First Lady donated building supplies, clothes, food, and money to affected town residents at a rally just weeks ahead of the June 27 run-off.

¶8. International NGO Operations Suspended... The Minister of Public Service, Labor, and Social Welfare, Nicolas Goche, has instructed the NGO CARE to suspend its humanitarian food aid operations indefinitely until investigations about "political activities" are completed. CARE is a key implementing partner of USAID's food aid program. The UN Humanitarian Coordinator in Harare reported to an OCHA/Donor Group meeting on May 29 that several additional NGOs would be called to a meeting with the Minister on June 2, and that it was possible they would be suspended. While not completely closing down or cancelling agreements with NGOs, the government is showing hostility toward any agency that it suspects is providing material assistance to communities that voted against ZANU-PF in the March 29 elections.

The current early post-harvest season should mitigate the impact of a suspension of food aid distributions, and no large scale distributions are typically conducted until August. However, there are already reports of maize scarcity in some areas, and a prolonged suspension could have dire consequences for the beneficiaries of CARE and other NGOs.

¶9. VOA Expands Studio 7 Broadcasts... In an effort to increase opportunities for Zimbabweans to receive independent news reports during the election period, VOA will begin repeat coverage of its highly popular Studio 7 radio broadcasts immediately following its normal program. The expanded coverage will begin June 1.

¶10. PEPFAR Strategy On Track... A May portfolio review and strategy appraisal by the U.S. PEPFAR Zimbabwe Team revealed that in spite of increasing economic degradation and political unrest, the HIV program and strategy are on track. For the near term, the team assumes that political conditions will limit partners' abilities to travel to certain areas and to conduct some outreach activities. However, these limits are expected to wax and wane in different geographic areas, and overall program momentum is expected to be maintained in the current environment. The team also formulated "good case" and "worse case" scenarios to respond to the potential for a changed operating environment.

¶11. Bad Week For African Dictators... Ethiopia's Supreme Court sentenced former president Mengistu Haile Mariam to death this week for mass murder during his 17-year rule. Mengistu has been living in comfortable exile in Zimbabwe under the protection of Robert Mugabe. The international press also reported the arrest of Jean-Pierre Bemba, former vice president of the Democratic Republic of Congo, in Belgium earlier this week on a war crimes warrant from the International Criminal Court. The warrant covers alleged offences against the civilian population of the Central African Republic in 2002 and 2003, including rape, torture, and outrages upon personal dignity.

On the Economic and Business Front

¶12. Zimbabwe Dollar Swoons... The local currency continued to sing the blues on the parallel market. In the past week, the Zim dollar fell by 33.8 percent from Z\$430 million: US\$1 to Z\$650 million: US\$1. Demand for foreign exchange keeps outstripping supply and the government is beginning to raise concerns over the rapid rate of depreciation. Addressing journalists in Harare on May 27, the Minister of Finance stated that while the liberalization of the foreign exchange market had some benefits, it had also resulted in a number of hardships. This is hardly surprising since the costs of any exchange rate depreciation are front-loaded while the benefits take longer to appear as economic agents wait to see whether the policy change will last. As ZANU-PF enters a spending frenzy ahead of the presidential election runoff, we predict no let up in the slide over the next weeks.

¶13. May Inflation Tops 1 Million Percent... According to the Zimbabwe Independent, leaked Central Statistical Office figures show that the official rate of inflation increased from 732,604 percent in April to 1,694,000 percent between May 1 and May 23. An unnamed senior official in the Ministry of Finance reportedly stated that the government has now forecast the figure to reach between 1.8 million and 2 million percent for the entire month of May.

¶14. Tourism Prices Liberalized... Following the partial liberalization of the foreign exchange market, the National Incomes and Pricing Commission (NIPC) decontrolled prices in the tourism sector this month to increase viability of the players. Prior to this, players were paying for their imports at the parallel rate but forced to use the highly overvalued official rate in terms of their pricing. The private sector-led Zimbabwe Council of Tourism hailed the policy shift for finally taking international pricing formulae into account.

¶15. High Market Liquidity... High liquidity has characterized the money market in recent months, with daily surpluses averaging Z\$600 trillion (US\$1,721,664 at the average street rate for May). Our banking contacts blame the imbalance on, among other factors, the quasi-fiscal (i.e. off-budget) activities of the Reserve Bank of

Zimbabwe (RBZ)-in particular, concessionary financing; private companies offloading foreign exchange onto the market at the inter-bank rate; tobacco financing on the auction floors; and increased government spending prior to the impending election runoff. Once again, commercial banks are bearing the cost by being forced to park their surpluses in 90-day non-negotiable certificates of deposit (NNCDs) that do not earn interest. As a result, money market interest rates have remained subdued at 50-150 percent per annum.

¶16. Cotton Crop Up... The preliminary forecast for 2008 seed cotton production is 300,000 MT, an increase of 18.1percent from last year's crop, according to the annual Zimbabwe Cotton and Products report published by the USDA FAS Global Agriculture Information Network. The industry plans to expand production further by increasing the area planted and recruiting new farmers. In 2007, Zimbabwe earned over US\$120 million from the export of about 86,000MT (395,000 bales) of cotton lint, second only to tobacco as an export crop. About 300,000 small scale farmers produce 99.2 percent of the crop.

Quote of the Week

¶17. From Front Page Story In The Herald of May 26:
"I am told that [Ambassador McGee] says he fought in Vietnam; fighting in Vietnam does not give hi the right to be interfering in our domestic affairs. Tall as he is, if he continues doing that, I will kick him out...I am just waiting to see if hemakes one more step wrong. He will get out. This is Zimbabwe, it is not an extension of the Unite States."

NNNN